

# Workers' paychecks evaporate, as market basket collapses 50%

by Richard Freeman

Today, a worker's purchasing power is approximately half of what it was three decades ago. This can be expressed in terms of what a paycheck buys—the consumer market basket of essential goods needed for a family's survival and development—and in terms of the basic infrastructure that is indispensable for a working family's existence.

There are two levels at which we will examine how much that purchasing power has fallen.

First, we will compare, for selected years since the mid-1960s, the value of an average worker's paycheck, and the cost of the basic items needed for that worker's family's survival and advancement—the household consumer market basket. Although both the paycheck and the basic items' costs are expressed in dollars, we haven't the slightest interest in dollar values; rather, we are concerned with the ratio between the paycheck and what it buys. We will show that for essential items, such as a home, a car, a hospital stay, or a college education, the number of weeks a worker must work to acquire these has increased by 1.5 to 4 times over the past 30 years. Inversely, this proves that the worker's purchasing power has fallen by 40 to 80% during this period, because it takes him so much longer to acquire the same goods. The paycheck is evaporating.

Second, we will look at the catastrophic fall in consumption of these same basic items by families, where such figures exist. This fall in consumption, which reflects the lack of productive capability in the U.S. economy, is twofold: Not only has the quantity of goods consumed abruptly declined, but the quality of the goods has plunged, too. The quality of many products, from homes and cars, to education and hospital care, is but a pale facsimile of what was the

norm 30 years ago.

In approaching this, we ask the reader to give up all notions of economics as having to do with dollar expressions. One doesn't eat dollars, or clothe oneself in dollars, or house oneself in dollars. Our concern is with the physical goods and infrastructural services, as well as cultural services, that a worker and his family consume, which allow the family to reproduce itself as a functional unit, and, in particular, as a unit that produces and maintains a current and future workforce of the highest intellectual and scientific standard. To produce a family at a certain intellectual and material level of existence, requires not an assortment of "things," but a specific spectrum of goods and services: This is defined as the household consumer market basket. Each family must have access to a decent standard of a consumer market basket. If this market basket is slashed, this causes the disintegration of the family.

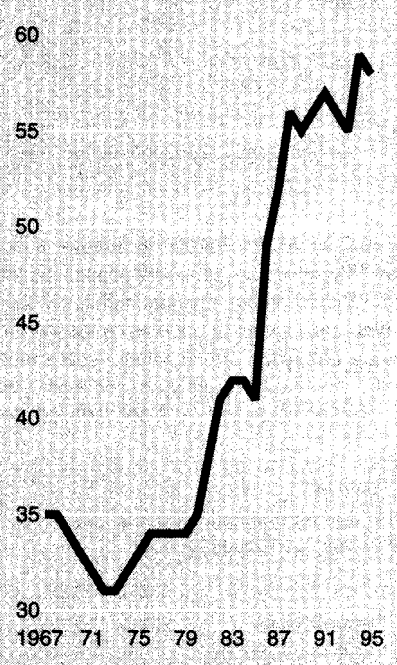
In turn, this destroys the current and future generation of the labor force, ravaging the physical economy.

Thus today, while there is a lot of blather about the growth of incomes, the lowering of unemployment, and so on, the reality is quite the opposite.

## Collapse in purchasing power

We start with the average weekly paycheck of a "non-supervisory worker employed in private non-agricultural industry." Most of the workers in the economy are of this type. In 1965, this average wage was \$95.45 per week; in 1995, it was \$398.68. This is the gross wage before taxes. We are treating the wage as if taxes didn't exist. This won't change anything fundamental; if anything, including taxes would lower the purchasing power of

FIGURE 10  
Number of weekly paychecks required to buy new car  
includes finance costs

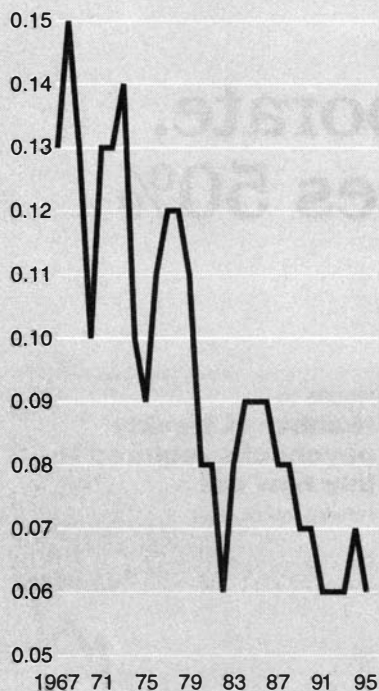


today's paycheck, because taxes as a percentage of the paycheck have risen since 1965.

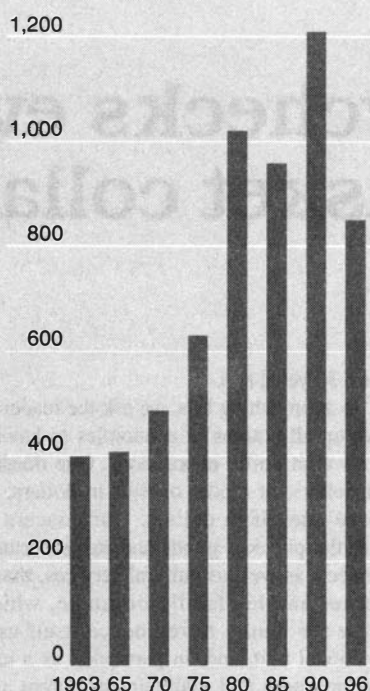
For each key item, where possible, we present two pictures: the number of paychecks required to purchase that item, and the physical production parameters of this item.

- **Cars.** In 1967, it required 35 weeks of an average worker's weekly paycheck to purchase a new car (including financing costs); today, it requires 58 paychecks (Figure 10). That is, a worker must work 23

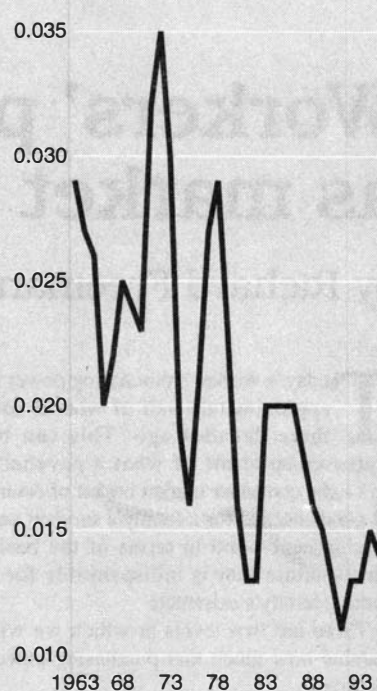
**FIGURE 11**  
**Cars produced per household, 1967-95**



**FIGURE 12**  
**Number of paychecks to purchase a new home**



**FIGURE 13**  
**Housing starts per household, 1963-95**



weeks, or 65.7% longer, to acquire a new car. Therefore, in physical terms, it costs 65.7% more to buy the car. Stating the same point, but inversely, a worker's standard of living has fallen 39.7% today, compared to 1967, relative to the ability to purchase a car.

This tells us, that with the reduced pur-

chasing power, the worker is less able to purchase cars as part of his market basket. This is quite important, because except in about 20 large cities that have functioning mass transit systems, most people in America are forced to travel by car.

We start, however, with the *production* of cars, because it is the economy's ability to produce that determines the functional limits of its ability to consume. Without production, consumption cannot occur—something that most oligarchical bankers and members of the fascist "Contract on Americans" crowd, have never understood. While a deficit in production can sometimes be made up by imports, that source can dry up. In the case of cars, foreign import sales have fallen from 3.2 million per year in 1985 to 1.2 million per year in 1995.

We measure production of cars, not by absolute units produced, but by units produced per capita, per household, and per hectare. Were car production to have remained the same while the population doubled, then we would not really be getting the same number of cars, because relative to what the population needs, the number of cars would have been halved. **Figure 11** shows that, while in 1967, there were 0.13 cars produced per household, this had fallen

to 0.06 cars per household in 1995, a plunge of 54%. This constitutes a level of fall in auto consumption per household, of approximately 50%.

There is an additional element to take into account: The quality of the car has fallen. While one is told that cars today are safer, that is a fraud: They are far less structurally sound. **Table 1** shows the material components that went into a car in 1975, compared with today. Today, cars weigh nearly half a ton less. Federal Highway Administration statistics are unambiguous: Lighter cars increase the possibility for fatal accidents.

- **Homes.** In 1967, it required 399 weeks of an average worker's weekly paycheck to purchase a new home (including financing costs); today, it requires 877 paychecks (**Figure 12**). That is, a worker must work 478 weeks, or 119.7% longer, to acquire a new home. Therefore, in physical terms, it costs 119.7% more to buy the home. A worker's standard of living has fallen 59.1% today, compared to 1967, with respect to the ability to purchase a new home.

With reduced purchasing power, the worker is less able to buy a home. As with the car, we approach the issue by looking at

**TABLE 1**  
**Pounds of material in a typical family car**

	1975	1996
Regular steel	2,315	1,409
High strength steel	106	287
Iron	626	389
Plastics and plastic composites	168	245
Aluminum	86	195
Copper and brass	37	45
Zinc die castings	53	16
Rubber	160	139
Glass	94	94
Other materials	325	417
<b>Total weight</b>	<b>3,970</b>	<b>3,236</b>

Source: American Automobile Manufacturers Association, "Facts and Figures, 1996."

home production, which determines the number of homes that will be available for consumption (imports are not an issue here). **Figure 13** shows that while in 1972, there were 0.035 homes produced per household, this had fallen to 0.014 homes per household in 1995, a fall of 60%. This corresponds to the range of collapse in home consumption per household, of greater than 50%.

The nation's housing shortage, while it has been lessened a little by the declining rate of family formation, is still quite acute. For 20 of the nation's largest cities, a staggering percentage of housing units was built before 1939 (see **Table 2**). This defines the need for a very ambitious housing reconstruction program.

Yet, at the same time, the quality of housing is deteriorating. New homes are often made with the cheapest and shoddiest materials. New homes, sometimes priced at a quarter of a million dollars, are built with doors made of cardboard cores instead of wood; no cross-braces under the joists of floors to support them and prevent shaking, and the proverbial 2 by 4 piece of wood shaved down to 1.5 by 3.5

inches. Whereas 50% of the siding in a house in the 1970s was made of brick (in the 1950s, we used to build entire homes out of brick—but that's a thing of the past), today less than 30% of the siding is made of brick, replaced often by siding made of a cheap plastic compound. Moreover, the material placed between the house frame and the siding—called the sheathing—is overwhelmingly made from either aluminum foil or foam. Aluminum foil and foam are both good insulating materials—one of the functions of sheathing. But they have no racking strength, that is, the ability to stand up to high winds, another of the purposes of sheathing. As one contractor put it, "The aluminum foil-covered sheathing has about as much racking strength as hanging down a few strips of tin foil." This is one of the reasons that so many homes disintegrate when hit by hurricanes, floods, and other natural disasters.

**Figure 14** shows how the usurious interest cost increases the overall ownership cost of a house.

• **Health.** In 1965, it required 3.3 weeks of an average worker's weekly paycheck to

**FIGURE 14**  
Interest increases total cost of new homes

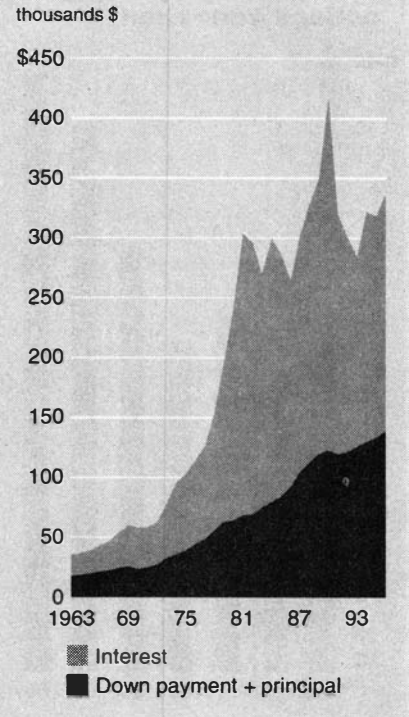


TABLE 2

**Number of housing units, and percent of housing stock built before 1939, in 20 large cities**

	Housing units (thousands)	Percent built before 1939
Metropolitan New York City	7,097	31.1%
Los Angeles-Anaheim	5,293	9.4%
Chicago	3,106	25.7%
Metropolitan Philadelphia	2,308	29.9%
Detroit	1,826	17.6%
Metropolitan Boston	1,651	39.5%
Dallas-Ft. Worth	1,628	5.0%
Metropolitan District of Columbia	1,557	27.0%
Houston	1,530	4.6%
Miami-Ft. Lauderdale	1,400	2.2%
Atlanta	1,174	19.7%
Cleveland	1,123	26.5%
Seattle-Tacoma	1,060	15.2%
Tampa-St. Petersburg	1,025	4.3%
Metropolitan St. Louis	1,006	21.3%
Minneapolis-St. Paul	989	20.5%
Pittsburgh-Beaver Valley	956	34.3%
San Diego	946	5.5%
Baltimore	939	19.9%
Denver	811	10.5%

Source: "Housing Census, Summary of Detailed Housing Characteristics, 1990," published by Department of Commerce, Bureau of the Census, Housing and Household Economic Statistics Division.

**FIGURE 15**  
Number of paychecks to pay for a single hospital stay

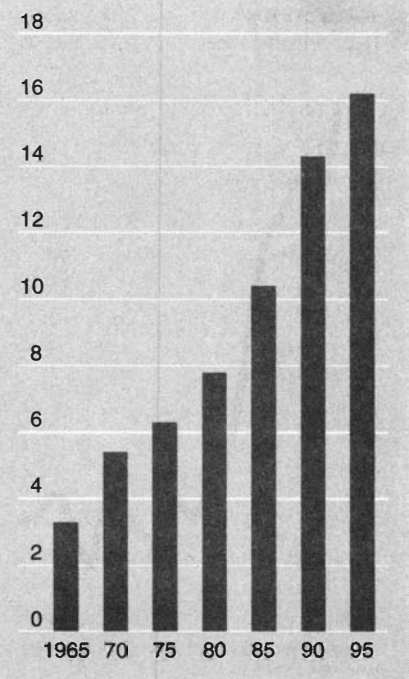


FIGURE 16

**Number of paychecks to pay for one year of college education**

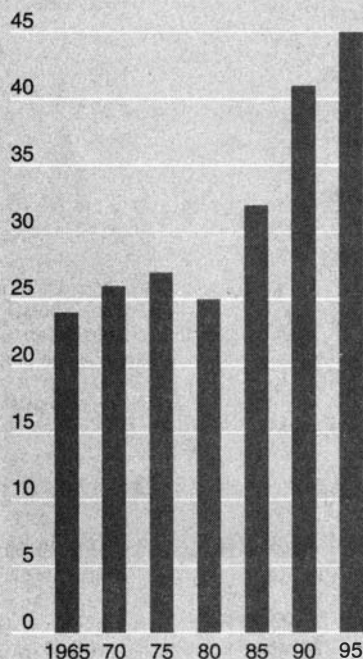


FIGURE 17

**Residential energy consumption per household, 1973-95**

millions of BTUs

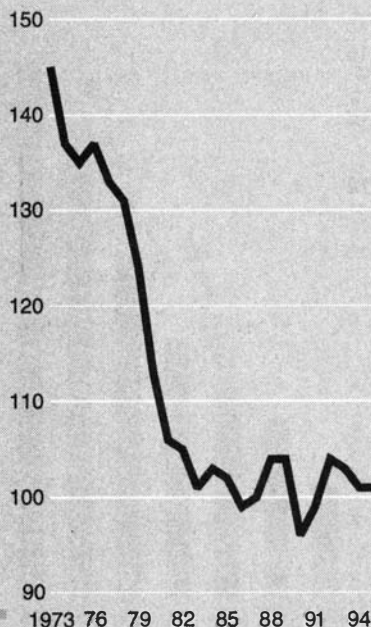


TABLE 3

**Decline in production levels for goods in producers' and consumers' market baskets on a per-household basis**

(index 1967=1.000)

	1967	1973	1979	1982	1990
<b>CONSUMERS' MARKET BASKET</b>					
Men's trousers	1.000	0.965	0.594	0.504	0.335
Men's shirts	1.000	0.644	0.486	0.343	0.165
Women's blouses	1.000	1.023	1.511	1.405	0.684
Women's dresses	1.000	0.597	0.503	0.339	0.279
Women's woollens	1.000	0.264	0.254	0.139	0.166
Refrigerators	1.000	1.247	0.935	0.703	0.932
Passenger cars	1.000	1.150	0.869	0.484	0.512
Tires	1.000	1.020	0.833	0.666	0.877
Radios	1.000	0.706	0.467	0.316	0.098
<b>PRODUCERS' MARKET BASKET</b>					
Metal-cutting machine tools	1.000	0.643	0.530	0.289	0.212
Metal-forming machine tools	1.000	0.854	0.730	0.404	0.406
Bulldozers	1.000	1.200	0.713	0.334	0.306
Graders and levellers	1.000	0.786	0.748	0.383	0.349
Pumps	1.000	1.140	0.541	0.424	0.506
Steel	1.000	1.029	0.821	0.416	0.487
<b>INTERMEDIATE GOODS FOR EITHER MARKET BASKET</b>					
Gravel and crushed stone	1.000	1.023	0.914	0.624	0.575
Clay	1.000	1.022	0.759	0.459	0.544
Bricks	1.000	0.999	0.850	0.451	0.598
Cement	1.000	1.045	0.911	0.632	0.689

pay for a single in-patient hospital stay; today it requires 16.2 paychecks (Figure 15). That is, a worker must work 12.9 weeks, or 5 times as long, to pay for a hospital stay. Therefore, a worker's standard of living has fallen 79.6% today, compared to 1965, in terms of the ability to purchase a single hospital stay. Of course, most people don't pay for a hospital stay exclusively out of their own funds; they have medical insurance—unless they are one of the 39.7 million medically uninsured in this country. But medical insurance premiums have skyrocketed as a percentage of the weekly paycheck.

The deterioration of hospital and health care services, in terms of beds per capita, and so on, is presented elsewhere in this *Special Report*.

- **Education.** In 1965, it required 24 weeks of an average worker's weekly paycheck to pay for a single year of a child's tuition and room and board (but not books and other living expenses) at a four-year private college; today it requires 43 paychecks (Figure 16). Thus, a worker must work 19 weeks, or 79% longer, to pay for a single

year of his child's college education. Therefore, in terms of the ability to pay for a year of college education, a worker's standard of living has fallen 44.2% today, compared to 1965.

(The deterioration of education infrastructure in general is presented elsewhere in this report.)

- Other key items of the family consumer market basket are presented in Table 3. A production or consumption level for each item was determined, and then divided by the number of households in 1967. This yielded a production level on a per-household basis. The 1967 level was set equal to 1, and all subsequent years' production levels were compared to it. Notice that by 1990, the level of output for consumer market basket items such as radios, trousers, and blouses (as well as some producer market basket items) has fallen anywhere from 10% to 90% from 1967 levels.

- **Energy.** In 1973, as Figure 17 shows, the level of residential energy consumption, per household, was 145 million British Thermal Units; today, it is 101 million



Townhouse construction in northern Virginia. Shoddy construction and cheap materials are now the order of the day throughout much of the nation's construction industry.

BTUs per household, a fall of 30%. Some of that is due to the use of the more efficient form of energy, electricity; but much of it is due to the breakdown in overall consumption patterns. The death of 500 Chicago citizens, many of them elderly, during the heat wave of the summer of 1995—several of them because they could-

n't afford air conditioners—dramatizes the situation.

The pattern of the reduction of the production and/or consumption of critical items which make up the household consumer market basket ranges from 30% to 80%, depending on the item, confirming that a worker's purchasing power is

approximately half of what it was three decades ago.

• **Debt.** Finally, accelerating the collapse of a family's purchasing power is the growth of household debt: debt for mortgages, car loans, installment credit, etc. Many families contracted this debt to make up the shortfall in their income and

## Where did the paycheck go?

To gauge the effect of the shrinking paycheck, *EIR* calculated the monthly payments that a worker would have to make for a home, car, and health insurance premiums, as a percent of the average paycheck. (For health insurance, only the worker's component of the insurance cost is counted, not the employer's.) **Figure 18** shows that by 1995, these three items alone would consume 84% of the average single paycheck. This would leave very little for any other purchases, such as food, clothing, furniture, or servicing an automobile.

By comparison, in 1965, when the purchasing power of a paycheck was twice as strong, the monthly payment costs for these three items was only 46%, leaving enough left over to support the other

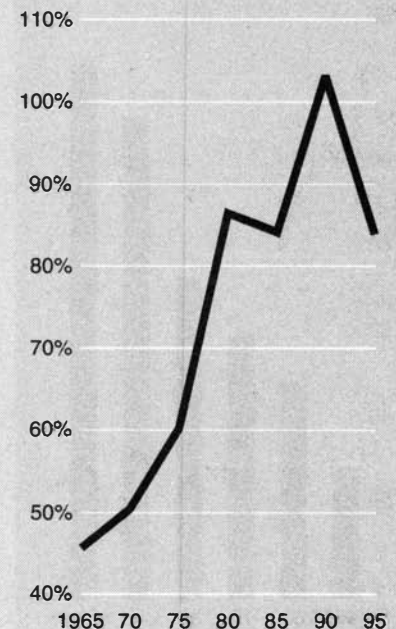
requirements of a family. (The drop in percentage from 1990 to 1995 reflects a drop in interest rates.)

The single paycheck is a revealing metric. Fewer households are supported by a single paycheck, but even families with three or four of today's jobs cannot survive.

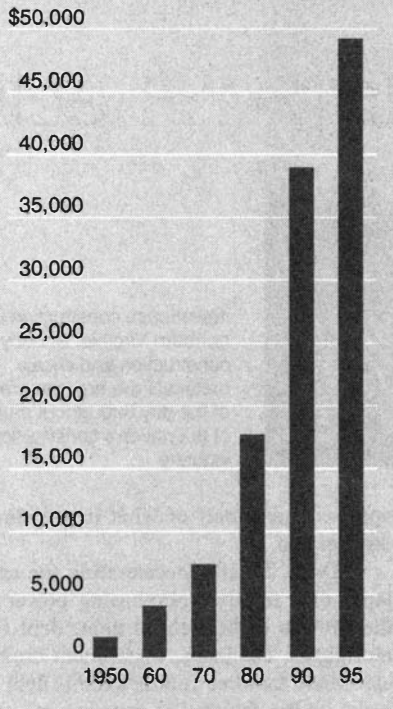
Now, it is true that not every household is paying off a car and a home purchase; but at minimum, families will be paying rent, or buying a used car, and the prices of these items have also increased dramatically relative to the purchasing power of the paycheck. Thus, the parameter accurately reflects the tendency experienced by all households, and closely reflects the intensity of the fall in purchasing power.

FIGURE 18

### Combined home, car, and insurance payments as a percentage of average paycheck



**FIGURE 19**  
**Household debt per household soars**



purchasing power. Now, they are paying for it. **Figure 19** shows that household debt, which was \$1,632 per household in 1950, reaches \$49,248 per household today. **Figure 20** shows the number of paychecks that would be required to pay off that debt. **Figure 21** shows the annual amount in interest charges that must be paid, per household, on this household debt. There is also credit card debt, which by and large is not included in the figures for household debt. **Figure 22** demonstrates that credit card holders who carry a balance on their cards—which is 70% of all holders—have increased their average amount of credit card debt to \$3,900, which is \$3,000 more than 10 years ago.

All of this debt has, of course, an interest charge. In 1950, the annual amount of interest paid, per household, on its household debt was \$41; today, it is \$3,694 per household, per year, a 9,000% increase. This sharply affects the market basket: The usurious looting through interest payments, contracts still further the amount of money available to purchase goods, further reducing the consumer market basket.

Reflecting the household debt burden,

the level of U.S. credit card delinquencies, and personal bankruptcy filings are setting new records. Bank lending through credit cards has more than doubled since 1992.

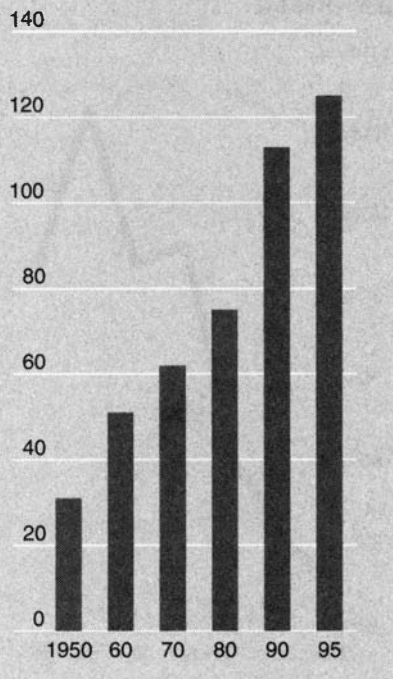
As of June 30, 3.66% of all active credit card accounts were delinquent—for the seventh quarterly increase, and the highest rate since delinquency statistics first were compiled in 1974.

Americans owed \$454 billion in credit card debt as of June 30, a \$72 billion—18.8%—increase over the \$382 billion outstanding at June 30, 1995. Credit card debt represents 39% of all consumer lending.

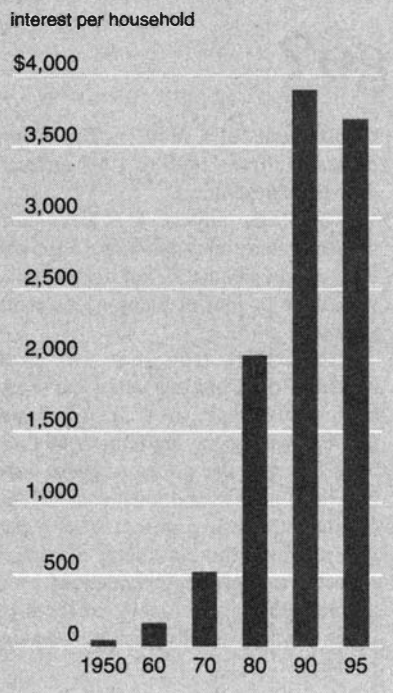
This delinquency data, and the rising credit card debt, indicate how millions of Americans are using their credit cards to supplement wages and salaries which do not provide a living income, and that when their credit cards are blown out, many of them file for bankruptcy.

The nationwide bankruptcy rate for the first six months of 1996 is up over last year by 26%. At this rate, by year end, the U.S. will surpass one million bankruptcies this year for the first time ever, reaching an expected 1.1 million bankruptcies.

**FIGURE 20**  
**Number of paychecks required to pay off household debt**



**FIGURE 21**  
**Annual amount of interest owed on household debt**



**FIGURE 22**  
**Credit card debt per card holder**

